

**Testimony of Andrew Reicher
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The House Government Reform Committee on Federalism and the Census

The New York City Experience: How has the Community Development Block Grant Program Shaped the Big Apple

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Good Morning! I thank you for your interest and concern for the Community Development Block Grant (CDBG) Program and am pleased to have the opportunity to appear before you this morning and discuss a CDBG funded program that has been central to my work and my organization for the past 27 years. I am Andrew Reicher and serve as the Executive Director of UHAB, The Urban Homesteading Assistance Board. UHAB was founded in 1973/4 in response to New York City's housing abandonment crisis. According to New York City journalist Neil F. Carlson: *From 1970 to 1978, the city lost an average of 3,274 units of housing units per month...!*

Sponsored by the Cathedral Church of Saint John the Divine, UHAB was founded on the simple notion that these abandoned buildings were opportunities and not problems and that, given the right resources and technical assistance neighborhood residents could help meet their own housing needs through the rehabilitation and ownership of these buildings.

UHAB's early work was Urban Homesteading. Providing technical assistance and training, UHAB helped groups of low-income residents, interested in preserving their neighborhoods, to acquire vacant, abandoned multi-family *in rem* buildings that had been foreclosed by the City for real estate taxes. These properties were redeveloped through the self-help efforts of the homesteaders using a combination of sweat equity and contractor labor; and utilizing a combination of government, private and philanthropic financing. Upon completion the buildings were owned and operated by the homesteaders as limited equity cooperatives.

But the disinvestment, non-payment of taxes and landlord abandonment continued to grow affecting up to 20% of the of the City's housing stock and over 40% of the housing in some low-income neighborhoods. In 1977 Local Law #45 was enacted. This allowed the city to begin foreclosure after just one year of non-payment of taxes instead of three. This new *in rem* law, intended to stop landlord abandonment resulted in the City taking ownership of buildings before they were vacant and abandoned. Between 1978 and 1979 the city vested title to 14,000 buildings with nearly 40% still occupied. What had been a crisis of vacant, abandoned and often burned and devastated property was now a

management and fiscal burden. The newly created Department of Housing Preservation and Development (HPD) accepted a proposed solution from the Task Force on City Owned Property – a coalition of elected officials and housing advocates and city-owned building residents – to create a series of alternative management programs that became the Division of Alternative Management Programs (DAMP). The programs were designed to repair and dispose of the properties often as tenant-owned cooperatives. Chief among these programs was the Tenant Interim Lease or TIL Program.

The TIL Program is designed to give tenants an opportunity to learn how to own and operate their own building during an interim period lasting 3-5 years. The buildings remain in City ownership but are leased and managed by the Tenant Association. City staff and UHAB, under a CDBG funded contract, provide training and technical assistance. Once the building and tenant association are organizationally, financially and physically ready the property is sold to the tenants as a limited equity cooperative.

The TIL Program begins with an application supported by a petition signed by 75% of the Tenants. Tenant Association officers were then required to complete five evenings of training offered by UHAB that included an introduction to the program and its requirements, bookkeeping and reporting, maintenance and repair and management operations. Upon completing training, Tenant Associations opened a bank account and could begin collecting rents, paying bills, making needed repairs, employing staff and undertaking nearly all the functions of the day-to-day management of a NYC apartment building. Buildings in the TIL Program are self-managed by the residents and rarely employ professional outside management. To support this self-management UHAB, under our CDBG funded contract, has developed a comprehensive set of manuals, an extensive curriculum of formal training courses followed up by direct technical assistance either on-site or in our office to help the tenant association put their training into practice and deal with problems, tasks and emerging issues. In 2004 UHAB conducted over 260 training classes and an average of 100 site visits per month from our offices in Brooklyn, Harlem and Lower Manhattan. HPD staff also provides assistance and oversight and more recently training.

The Tenant Associations self-manage under their interim lease for a period that typically lasts from three to five years. During this period the tenant association strengthens and improves its organization, its financial and management skills- essentially learning and practicing everything they will need to become successful homeowners. This includes: leadership, communications, running meetings, bookkeeping, payroll and reporting, hiring contractors, supervising repairs, collecting rent and going to landlord-tenant court, banking and budgeting, overseeing regular maintenance and supervising employees, dealing with tenants' problems and problem tenants, buying supplies and fuel and paying bills, dealing with government agencies and finally the process of becoming a co-op.

HPD for its part, monitors progress and oversees the buildings; receiving monthly financial and management reports. Rehab plans are developed by HPD. In the early years rehab was limited to essential systems. More recently, residents are temporarily relocated while the building undergoes extensive rehabilitation utilizing City Capital

funds and HOME Funds. Once the rehab is completed HPD converts the building to co-operative ownership selling the building for \$250 per apartment.

The sale and co-op conversion trigger a new set of issues, skills and knowledge for the tenants and leaders. The new co-op corporation takes on all the responsibilities of home ownership, management and co-operative governance. They have to become familiar with their new operating budget that includes taxes, insurance, reserves and other expenses that were not part of TIL expenses. The role of the board and officers, selection of new shareholders, buying and selling apartments, reserves and asset management, and legal issues as arcane as dealing with the estate of deceased shareholders all become important. UHAB provides an extensive array of training courses and seminars focused on these co-ops that build on the TIL experience. Follow-on technical assistance remains available as well to help the tenant association make the transition to co-operative and to help with whatever issues the co-op may face in the future.

Training, technical assistance and on-going support are an essential part of the success of the TIL Program. Susan Saegert and Lymari Benitez of the City University of New York Graduate Center) in their report for the Taconic Foundation, state: *Shareholder education and leadership development training are critical and must continue throughout the life of a LEC (Limited Equity Cooperative)*. (“Limited Equity Cooperatives, A Review of the Literature”, June 20003). To assure this key element of the program, UHAB has been under contract since 1978 to develop and deliver the TIL Training and Technical Assistance to all of the tenant associations in the TIL Program and to all the resulting co-operatives from TIL and other DAMP programs. This contract has been funded through CDBG for nearly 27 years.

In 1978 in the first months of the TIL Program about 20 tenant associations signed up for the program and began attending classes and about the same each month after. By the end of the first year almost 200 buildings were part of the program. Today 1,062 buildings have become low-income limited equity co-ops providing affordable home ownership to nearly 26,000 households who had no other opportunity for home ownership. Today, while there are no new city owned properties, there are still 313 buildings in the TIL Program working their way toward co-op home ownership. The manuals, training materials and the training and technical assistance methods developed for the TIL Program with CDBG support have served as models for other organizations undertaking similar co-op development in cities throughout the country from Alaska to Texas, Vermont to California, including, Iowa, Nebraska, New Jersey, Washington, DC, Chicago, Boston and Minneapolis. Groups in Russia and South Africa have built upon the method, materials and capacity that the TIL Program developed with CDBG support.

As for the buildings and the residents. Professor Susan Saegert’s research provides some interesting insights. Much of her analysis employs data from two large surveys of residents in various types of low-income housing in New York City in the mid-1990s. The surveys consisted of interviews with individuals in more than 6,000 households, primarily in the Bronx and Brooklyn. The interviewers targeted buildings that were

currently or formerly City-owned, and spanned five different ownership options: tenant co-operative ownership (TIL), community group ownership, private landlord ownership, continued City ownership, or transfer to Housing Authority ownership. Saegert found:

"The program that performed the best was tenant co-operative ownership. It was head and shoulders above the others in terms of management quality and building services, had many fewer problems with drugs and crime, showed the greatest tenant satisfaction, and was comparable to other sales programs in terms of preserving rent affordability."

Saegert's research looks closely at the benefits of co-op housing. These include **empowerment, increasing civic participation, developing social capital, increasing job opportunities and wealth accumulation.**

Empowerment has been defined as "a mechanism by which people, organizations and communities gain mastery over their own affairs." This mechanism is clearly at work in the buildings UHAB assists. Dr. Saegert has found:

"Residents who participated in the conversion of their buildings not only substantially improved their building conditions, but also very often changed in their sense of control over their lives, their ideas about how effective they could be in social and political processes and in their expectations for the future of their communities."

In the debate about community development in low-income neighborhoods, the concept of social capital has become widely used in recent years. It has been defined as "the features of social organization, such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit." Social capital theorists propose that besides financial and human capital, social capital enables individuals to achieve economic goals and provides an essential foundation for a democratic society. Saegert sees social capital as the currency of co-operative housing:

"Our ethnographic studies suggest that co-ops provide social capital that acts as the first line of defense in times of crisis. In almost every co-op we have studied closely, residents also provide encouragement and practical assistance to each other in pursuing education and employment opportunities. It is also common for some co-op residents to use the skills they learn running a building to advance both their education and their employment status."

Besides creating education and employment opportunities, the tenant co-op process encourages the development of a mixed-income population in inner-city neighborhoods. Theorists like William Julius Wilson have argued that the flight of employed, middle-class African-Americans and Latinos to the suburbs concentrates inner-city poverty and leaves these residents without role models for educational and employment success. Tenant-owned co-ops counter this trend. By offering a very affordable home ownership opportunity, they anchor employed, educated residents in areas like Harlem and the South

Bronx. These residents use their skills to improve their community instead of leaving it for more middle-income surroundings. Studies by Saegert in the mid-1990s have shown:

Compared to other types of low-income housing, the average resident in a low-income co-op has a slightly higher income of \$14,782.

Compared to other types of low-income housing, a higher percentage of the residents in tenant-owned co-ops are employed: 58 percent.

It could be argued that since residents in tenant-owned co-ops have slightly higher incomes and a higher level of employment, that a process of self-selection occurs where buildings with a more stable, working population are the ones that choose the tenant co-op process. However, research by Saegert suggests that while this is sometimes the case, another process is more common. She posits that taking part in the tenant co-op process encourages wealth accumulation.

Saegert's research has shown that the average income in a City-owned building was \$9,709. After these buildings join the Tenant Interim Lease (TIL) program, which is a bridge to home ownership, the average income rises to \$11,948. And the average income for residents in tenant-owned co-ops, as stated earlier, rises again to \$14,782. Saegert states that this data suggests:

"...that residents' incomes improve during the course of the TIL program or after it is completed."

It could be argued that incomes improve during the tenant ownership process because lower-income residents are displaced and replaced by higher-income newcomers. Saegert counters:

*"The fact that the tenant cooperatives show the longest lengths of residency of any of the programs—and the fact that canonical correlations indicate that higher income tenant cooperatives have the longest lengths of residency—suggest that displacement is much less likely as an explanation than **upward economic mobility** of the existing residents."*

In fact, wealth accumulation by co-op residents is a common sense explanation for the rise in incomes. The average monthly housing cost in a tenant-owned co-op in the mid-1990s was \$325. Even for tenants with a modest income, this sum enables them to have a large portion of their income available for other purposes that increase their economic mobility: for higher education, for starting a business, for child care, for transportation, for savings. In this way, tenant-owned co-ops clearly contribute to wealth accumulation in their communities.

While the TIL Program and the resulting co-ops have been effective tools in overcoming the impact on neighborhoods of abandonment and disinvestment and preventing displacement of low-income residents in hard economic times the future is in preventing displacement due to gentrification in the current housing market. Saegert and Benitez elaborate further in their report for the Taconic Foundation: *In addition to being resilient during difficult economic periods, LECs appear to provide a bulwark for low*

and moderate income residents against displacement in gentrifying neighborhoods. A recent study of LECs in a midtown neighborhood of Manhattan (Clinton, AKA Hell's Kitchen) found that, while the area produces more ground rent per square foot than 77% of New York City, with 2 of the 6 census tracts having higher ground rents than 96% of the city, LEC charges remained very low. LECs appear to account for much of the affordable housing left. Artists, actors, musicians, teachers, and public agency employees make up a sizable proportion of residents.

The cooperatives created through the TIL Program and their leaders were often the foundation on which many of New York's most devastated neighborhoods were rebuilt. Staying in place and rebuilding their homes served sent a powerful message. Today these cooperatives face new challenges as their neighborhoods, now rebuilt, are gentrifying. Costs and taxes are escalating and the rising price of housing puts enormous pressure on co-op leaders as they work to preserve their housing as affordable. As both the buildings and the leadership ages there is the need for repairs and upgrades as well as leadership transition. The new leaders need the old training and old leaders need help with new issues: the new lead law, green buildings, electronic bookkeeping, rising energy and insurance costs, reserves and asset management. UHAB's on-going CDBG funded contract allows us to help the cooperatives face these new challenges.

While today NYC no longer takes ownership of tax delinquent properties UHAB continues to assist tenant associations in 313 buildings on the path to cooperative homeownership as well as more than 1062 cooperatives providing on-going affordability to over 20,000 households through our CDBG funded TIL Program contract. But CDBG and the TIL Program have provided much more. The knowledge, experience, materials and processes developed through this effort serve as a basis for local residents, community organizations, banks, housing developers and others to undertake co-operative homeownership as part of new housing programs to meet the City's current housing situation. The 90 co-op projects with more than 1,200 apartments in just UHAB's development pipeline show that co-op homeownership is often a consideration for residents and has become a part of the Third Party Transfer Program, and an important tool in efforts to preserve affordable housing.

Attachments

“2004 Program Highlights”

“UHAB Comes of Age:
Thirty Years of Self-Help Housing in New York City”